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**SOME ECONOMIC METHODS AND FORMS OF INTERNAL CRISIS MANAGEMENT
OF BANKING INSTITUTIONS**

**METODE ECONOMICE ȘI FORME DE GESTIONARE A CRIZELOR INTERNE ALE
INSTITUȚIILOR BANCARE**

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Annotation: *In the context of the global financial crisis, a particular importance is given to the internal crisis management and the departments engaged in crisis management of the bank. The level of their professionalism determines the effectiveness of the management, its financial stability and sustainable development of bank. The lack of reliability for the banking sector is able to cause serious disturbances in the national economy. Therefore, the main task is to improve the banking system and banking infrastructure in order to avoid crises.*

Adnotare: *În contextul crizei financiare mondiale, se pune un accent deosebit pe gestionarea crizei interne și departamentele care se ocupă de gestionarea crizei băncii. Nivelul profesionalismului lor determină eficiența managementului, stabilitatea financiară și dezvoltarea durabilă a băncii. Lipsa de fiabilitate în sectorul bancar poate provoca grave schimbări în economia națională. Prin urmare, principala sarcină constă în îmbunătățirea sistemului bancar și a infrastructurii bancare pentru evitarea crizelor*

Keywords: *bank, banking system, risk, crisis, crisis management.*

Cuvinte-cheie: *bancă, sistem bancar, risc, criză, managementul crizelor*

Introduction

The development of the economies of countries operating in market conditions depends on the development and stability of the banking sector, since the financial resources provided by banks enable firms to operate on an extended basis. At the same time, the success of the operation of commercial banks and their stability depends largely on the financial condition of the bank's borrowers, up to 70% of the operations of the bank are related to lending. Consequently, the forecast of probability of the borrower's bankruptcy is one of the credit's risk management practices of the bank.

Materials and methods of research

The classical method of evaluating borrower creditworthiness (risk assessment - one of the stages of the internal crisis management) is often insufficient for risk assessment, as the calculations are based on data from the financial and accounting statements but the information contained in these statements do not always reflect the real situation. In addition, financial statements analysis is retrospective, reflects the situation for the previous periods and does not reflect neither the peculiarities of the company at the moment of lending (project) nor all the risks, that the borrower may incur during the implementation of the project: the level of accounts receivable and payable, their correlation and age, the state of stocks, etc.

Therefore, one of the problems in assessing the creditworthiness and solvency of customers is the lack of sufficient information on the financial status of potential borrowers.

Thus, according to the author, a real indicator for commercial banks will be the analysis of the financial condition of the institution would have had a the access to a generalized data on all enterprises containing all financial indicators. These inventories, for example, are used in Italy (though from the perspective of taxation, to reflect the real situation on the income and expenses of the enterprise, and as a consequence, of the profits).

The specialized "handbook of profitability of different kinds of business" is a handbook based on statistical data on the payment of taxes over the past ten years, in accordance with the obtained income and taxes, which must be paid to the state. The dependence is introduced by activities (allocated more than 180), the amount of revenue (the division using a pace of 500 thousand Euro), the costs, industries, locations, and some other indicators.

The presence of this directory with statistical information about the borrowers would allow commercial banks to determine more accurately the financial condition of its customers and assess their financial situation by comparing the performance of their statements with the average for the industry and specific type of activities.

To determine the internal rating of the borrower must be taken in consideration the financial information obtained from the accounting, statistical, management reports of bank's customers and other sources, as well as non-financial information: the shareholders, the level of the borrower's management, the state of industries and regions, the impact of government on the bank's clients activities. Thus, the rating system should be sufficiently flexible and objective, which allows taking into account not only the performance of the statistical indicators of economic agent, but also the information about its business developments that is not expressed quantitatively.

The next step of improving credit-scoring system of creditors is the development of methodologies for the assessment of creditworthiness, the likelihood of bankruptcy of the clients by using modern international techniques, for example, the IRB system.

The concept of IRB system (Internal Rating-Based Approach, IRB-approach) in recent years, has an increasing presence in periodicals and it means nothing else than the approach to the assessment of capital adequacy, based on bank's internal ratings of borrowers. IRB system is a "corporate" approach of the new Basel Capital Accord, which is named the "International Convergence of Capital Measurement and Capital Standards: a Revised Framework" (better known as Basel II).

For the first time the idea of using IRB to regulate capital adequacy was mentioned in 1999. This approach is more sensitive to credit risk and encourages further improvement of internal bank rating systems. An analysis of these systems carried out by the Basel Committee shows that the majority of western commercial banks are successfully calculating the indicators of creditworthiness and credit risk relying on internal assessment systems.

One of the key concepts of this method is an internal credit rating index, which gives an integrated and comprehensive assessment of the financial condition, profitability and creditworthiness of counterparties (including borrowers) of the bank. The assessment of the credit rating should be based only on objective information and it is very important that the considerations of bank's employees about the level of customer loyalty, the volume of operations or income that the client generates for the bank, do not affect the process of determining the credit rating.

The classification of borrowers by internal credit rating allows to introduce a formal technology of credit risk assessment at all stages of the lending process (as at the primary analysis of the loan application, as well as when the current loan monitoring).

Another economic method of internal crisis management is the adoption of the International Financial Reporting Standards by commercial banks of the Republic of Moldova - a set of standards and interpretations, which determine the order of the financial statements [5]. These standards are based on general principles rather than on strictly regulated rules, including:

- accrual basis;
- the principle of continuity (going concern);
- the principle of prudence;
- the principle of relevance, and others.

The process of globalization of markets, in particular the financial ones, calls for the creation of a single standardized accounting system that provides investors with reliable information, and facilitates the process of selecting the potential investment projects.

A particular importance to IFRS is given in crisis management activities of banks, since banks provide governments a complete and comprehensive information: the income statement, statement of changes in equity, cash flow statement.

As well as information about the assets, the state of credit portfolio (the classification by borrower, maturity, types of loans, etc.), on deposits of profitability (ROE and ROA), and others.

The calculation of the coefficients gives an opportunity to get a real idea on the financial situation of the bank, and in the future the managers could use this information for more effective internal crisis management because effectiveness of management decisions depends largely, on the reliability and completeness of data, ie, quality of the information [1].

It should be noted that the transition to IFRS is not a spontaneous and unexpected decision, but rather a logical continuation of the integration of Moldovan accounting and reporting system to the international one. It emerge from 2000, starting with the creation of a new regulatory accounting framework (NAS Comments on the application of NAS, Chart of accounts), the development and introduction of new forms of financial reporting, the introduction of a program of continuing professional education and certification of accountants and auditors, complying with the requirements of the International Federation of Accountants [4].

Another economic method of crisis management of the bank is the insurance of financial risks, which allows banks to defend against them. It is thus a lever, which allows to minimize the risks and mitigate the effects in case of their occurrence.

The insurance within the internal crisis management system can be viewed from two perspectives:

- internal - the formation of reductions for loan losses;
- external - risk insurance from specialized companies - insurance companies.

1) To determine the size of discounts in accordance with the normative acts of NBM is used the division of loans into the following categories: Standard - 2%; under the supervision - 5%; substandard - 30%; doubtful (problematic) - 60%, Hopeless (loss) - 100%.

2) Financial risk insurance - is the insurance of the property interests of the insured in case of failure to meet contractual obligations by the contractors of insured institution. The causes of nonpayment risk can vary from the bankruptcy of the counterparty to the political risks [2].

The main factor leading to the growing popularity of this type of insurance, as the insurance risk of loan nonpayment, is the increase in the volume of consumer and mortgage lending. The lending operations are characterized by a high risk of loan failure, which causes the need for development of a credit risk management system. The share of revenue from all services of lending accounts up to 80%. This kind of activities are at the basis of banking activities, are the most profitable, but at the same time the riskier one.

Insurance of commercial loans are made for providing insurance guarantees to banks that their loans will be repaid in due time in the case of insolvency of the debtor or the non-payment of debt for other different reasons. The classic form of repayment of the loan (mortgage, collateral, surcharge, warranty, guarantee, etc.) cannot always be applied, as the collateral value may be insufficient to secure the loan, and the involvement of guarantors is impossible. In this case, the insurance policy is an appropriate form of repayment of the loan.

Since 2008, under the new law "On Mortgage" mortgage loans can be provided only if this type of loan is insured - external crisis management (the sad experience of CB ProCreditBank JSC) [3]. The average total expenses of the borrower on the mortgage insurance are around 1-1.5% per year, of the outstanding loan.

One of the most important types of bank insurance is considered insurance for illegal or fraudulent activities of bank employees, it usually accounts for more than half of all insurance claims.

In 2001 in the Republic of Moldova was for the first time issued the insurance of banking risks "BBB" type (Bankers Blanket Bond). The first policy "BBB" type was issued by the insurance company "QBE Asito" to "Moldova-Agroindbank". The policy is offered for actions of disloyal personnel (errors allowed by staff and their abuse). The presence of the bank's insurance policy "BBB" is highly desirable in Europe, as it increases the bank's image and confidence, and, for example, in the United States the existence of such a policy is mandatory for all banks.

According to the insurance contract, in case of the loss of cash and other valuables during transportation, are compensated all losses caused by the loss of given objects for any reason while they are transported.

There are still many kinds of bank insurance, which include insurance:

- from the damages caused by the implementation of bank operations on the basis of forged documents;
- from the damages caused by the loss, theft or forgery of securities;
- from the losses incurred by the bank in case of receiving counterfeit currency;
- on the damage caused to the property of the bank;
- the insurance of personal safe located in the premises of the bank;
- the insurance from risks in the implementation of cash transactions;
- the insurance from risks associated with the use of plastic cards;
- ATMs insurance;
- insurance in case of computer crimes;
- collateral insurance;
- insurance in the case of borrower's death, etc.

Results and discussion

Analyzing the insurance of financial risks, it should be noted that the insurance at its further development and improvement may be the most effective control lever and it will contribute to minimization of banking risks of internal crisis management.

Thus, the bank in cooperation with insurance companies, and in accordance with legal requirements, minimizes the risks of non-payment of a mortgage loan or interest. At the same time, by mean of these measures the borrowers are also secured (in terms of title insurance), resulting in an increase of degree of confidence in banks and the entire financial system as a whole.

The complex and time-consuming process of bank risk management can be considerably simplified by transferring part of the risks to the insurance company, wherein the bank receive the assurance of repayment of loans at minimal cost and with more confidence, which has a positive

effect on the bank's image. The insurance company, in cooperation with the bank is able to ensure the financial stability of the bank due to its implication in the development of effective asset management strategies for the assets of insurance company and their distribution.

Conclusions

The increased cooperation between insurance companies and banks is a worldwide trend and the financial institutions in the Republic of Moldova are characterized by broader and deeper cooperation. At the same time, the certain processes in our country are quite intensively developing, while in European countries this kind of relations between the insurance companies and banks evolved over decades. However, the expression of relations between banks and insurance companies are not yet sufficiently widespread despite of outlined positive trends.

Consequently, this type of activity is costly, but it does not bring any real monetary profits for commercial banks that is why the insurance of financial risks, helping to reduce the costs of banks' risk management (training, constant improvement of their qualifications, payment of labor, etc.), and minimizing damage, as a result of an insured event, would become the primary method of prevention of banks' financial risks.

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